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1 Richard L. Spielvogel, M.D.
2 vote to continue them. And I don't know the
3 exact answer, but it had been many years, in
4 the range of eight to ten years.

5 Q. Now, as a trustee for AHERF, why
6 would it be important to you to have auditors
7 who would review the information presented by
8 management for GAP compliance, for example?

9 MR. FRIESEN: Objection.

10 A. From my viewpoint, the function of
11 those types of auditors are to certify that
12 the -- not that the information they have
13 given is correct information, but that with
14 the figures that they're given from
15 management, to assure that the statements
16 about the financial health of the company are
17 a correct interpretation of the actual
18 finances, and then also to make sure that the
19 reporting of those meets the legal standard.

20 Q. When you say "legal standard," what
21 are you referring to, sir?

22 A. What I think I'm referring to is the
23 fact that finances, profit and loss, monies
24 in, monies out, have to be reported to the
25 government and to certain certifying bodies in

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1 Richard L. Spielvogel, M.D.

2 A. Yes.

3 Q. Did you have any understanding of
4 what interaction AHERF's audit committee had
5 with Coopers & Lybrand during the course of
6 the annual audit?

7 A. No, I don't have a full
8 understanding. They certified the local
9 information provided with them and I assume
10 would answer questions if there were
11 questions.

12 Q. So in a general sense, you
13 understood as far as the AHERF organization
14 was concerned, the audit committee was the
15 primary contact with the auditors?

16 A. Yes, and probably the chief
17 executive -- probably Sherif and the other
18 people yes, McConnell.

19 Q. As well as senior financial
20 management; correct?

21 A. Yes.

22 Q. And senior financial managers in
23 your view would include whom?

24 A. McConnell and a fellow Chuck --
25 somebody out here in the east. I've forgotten

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1 Richard L. Spielvogel, M.D.
2 a standard format that meets -- that's
3 generally acceptable principles.

4 Q. The GAP principles you mentioned
5 earlier?

6 A. The GAP principles.

7 Q. And as a trustee, why would that
8 certification be important to you?

9 MR. FRIESEN: Objection.

10 A. It's important to me because I have
11 virtually no knowledge of these accounting
12 principles and so forth. And since I don't or
13 didn't suspect that people were lying or
14 providing false information, I had no reason
15 to suspect that, I felt that it was another
16 reassurance that the numbers as bad as they
17 were getting were correct, were a correct
18 display of what was actually going on.

19 Q. Is it fair to say then that you
20 would rely upon Coopers & Lybrand during your
21 tenure as an AHERF trustee to perform its
22 duties competently as an auditor?

23 A. Oh, yes.

24 Q. And to perform its duties with
25 integrity during the course of an audit?

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2 his last name. He was the person we usually
3 dealt with as McConnell's messenger. And in
4 each organization, there was sort of a CFO.

5 Q. Would it be Charles Morrison?

6 A. Morrison. That's it.

7 Q. Dr. Spielvogel, have you ever heard
8 the term "clean opinion" in the context of an
9 annual audit report?

10 A. Yes.

11 Q. What's your understanding of that
12 term?

13 A. My understanding, which may or may
14 not be right, is that the auditing company
15 such as Pricewaterhouse says that based upon
16 the information that was provided to me, the
17 financial statements are correct in the way
18 they're presented and we certify that or
19 somehow approve it.

20 Q. During the course of your tenure as
21 an AHERF trustee, do you ever recall receiving
22 anything other than a clean opinion from the
23 external auditors?

24 A. No. I don't know that every time
25 they said it was a clean opinion, but I don't

34 (Pages 130 to 133)

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1 Richard L. Spielvogel, M.D.
 2 recall anybody questioning any of their
 3 opinions or assessments of the numbers.
 4 Q. You mentioned earlier today that one
 5 way in which you would use quarterly financial
 6 information presented by management would be
 7 to gauge how the system was performing on an
 8 ongoing basis; correct?

9 A. Yes.

10 Q. Can you tell me how, if at all, you
 11 as a trustee would use the annual audited
 12 financial statements to gauge the system's
 13 financial performance?

14 A. Well, as I remember, I didn't use
 15 them too much because we by the time the
 16 annual audited statement came out, we were
 17 already in the next quarter or possibly had
 18 seen the next quarter. And so they were to me
 19 just a restatement of what we had already seen
 20 in the past and sort of old news you might say
 21 but a legal necessity that had to be done.

22 Q. If during the course of their audit
 23 work Coopers & Lybrand had discovered
 24 information that they believed called into
 25 question the internal financial data that had

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1 Richard L. Spielvogel, M.D.
 2 management, would that be a matter of concern
 3 to you?

4 A. Yes.

5 MR. FRIESEN: Objection.

6 Q. And you certainly wouldn't have
 7 ignored such disclosures; correct?

8 MR. FRIESEN: Objection.

9 A. I certainly wouldn't have ignored
 10 them. What I would have done with the
 11 information, I'm not sure.

12 Q. You would have asked questions of
 13 management? Do you believe your practice
 14 would have been to have asked questions of
 15 management?

16 MR. FRIESEN: Objection; calls
 17 for speculation based on the prior
 18 answer.

19 A. My belief, probably I would have
 20 asked Sunstein and Palmer what should I do
 21 with this because we were always under the
 22 threat of -- an implied threat of
 23 repercussions with your job and status and
 24 title. So whether it's the fault of myself or
 25 not, I might not have stood up at the meeting.

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1 Richard L. Spielvogel, M.D.
 2 been distributed, would you have wanted to
 3 know that?

4 MR. FRIESEN: Objection.

5 A. Yes, I would have liked to have
 6 known.

7 Q. And why would that type of
 8 disclosure be important to you?

9 A. Well, I'm not sure I would have done
 10 anything with it, but the natural thing would
 11 be we would then question our senior
 12 management at these meetings as to why there
 13 was this discrepancy and how did they explain
 14 the discrepancy or you would expect them to
 15 present it to us too.

16 Q. Them being whom?

17 A. Well, if there was -- both sides.
 18 You would expect the auditors to present it to
 19 us and the senior management to say there was
 20 a discrepancy.

21 Q. If you had learned during the course
 22 of Coopers & Lybrand's audit let's just say in
 23 1996, for example, that they had discovered
 24 what they considered to be material
 25 misstatements in the information presented by

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1 Richard L. Spielvogel, M.D.
 2 I certainly would have said to somebody what's
 3 the meaning of this, you know, what should be
 4 done.

5 Q. And the two trustees you just
 6 mentioned were two of those who had more
 7 financial experience than you had?

8 A. In my opinion, they did.

9 Q. And would that be one of the reasons
 10 you would go to them if you had concerns about
 11 the financial statements?

12 A. Yes. And I also considered them
 13 more than any other trustees friends, people I
 14 could talk to about affairs without going on
 15 the record.

16 Q. Now, you mentioned a moment ago you
 17 felt you may have been under an implied
 18 threat?

19 A. Yes.

20 Q. Was there any statements made by any
 21 managers at AHERF actually threatening that
 22 you could suffer repercussions if you spoke
 23 out?

24 A. No, there was not a threat like
 25 that.

35 (Pages 134 to 137)

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1 Richard L. Spielvogel, M.D.
 2 would run through your mind at that point in
 3 time.
 4 Q. And they ran through your mind as
 5 early as 1995?
 6 A. Yes, as early or probably shortly
 7 after I took that position with the clinical
 8 practice group and realized that Dr. Atkinson
 9 had wanted this very much. And she told me I
 10 think at some point that Dr. Kaye and
 11 Mr. Abdelhak were not greatly in favor of
 12 doing anything that coordinated the doctors or
 13 had the potential to make the doctors a lobby
 14 or a political entity. They weren't so much
 15 afraid of our clinical practice. They were
 16 afraid of actually all the doctors getting
 17 together as a single force.
 18 Q. Becoming a power base?
 19 A. Becoming a power base. That's what
 20 they were mainly afraid of.
 21 MR. FRIESEN: I don't have
 22 anything else.
 23 MR. UNICE: I just have two
 24 followups.
 25 BY MR. UNICE:

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1 Richard L. Spielvogel, M.D.
 2 Q. During the course of your tenure as
 3 an AHERF trustee, did you ever have a personal
 4 belief that financial management was cooking
 5 the financial records?
 6 A. No.
 7 Q. And if, in fact, that was being
 8 done, as a trustee, would you have wanted to
 9 know that?
 10 A. Yes.
 11 MR. UNICE: That's all I have.
 12 MR. FRIESEN: Thanks.
 13 MR. UNICE: Before you leave,
 14 you want to advise him of his right to
 15 read and sign?
 16 MR. FRIESEN: Yes.
 17 You have a right to receive a
 18 copy of the transcript and to read it and
 19 to sign it if it's okay. And if there
 20 are any transcription mistakes, not that
 21 you want to change your answers, but if
 22 there are any mistakes in the court
 23 reporter's typing up of your answers,
 24 then you can correct them. You have the
 25 right to do that or you don't have to do

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1 Richard L. Spielvogel, M.D.
 2 that. You can waive that right. It's
 3 totally up to you.
 4 THE WITNESS: I'd like to do it
 5 just so I can remember what I said in
 6 case there are additional -- I don't want
 7 to contradict myself with the vague
 8 stuff, so for that purpose.
 9 MR. FRIESEN: We can just send
 10 that to your home?
 11 THE WITNESS: Just send it to
 12 the same address on the letter which I
 13 put away. You can send it to my home too
 14 if you'd like. Also you can send it to
 15 the address this was sent to.
 16 MR. FRIESEN: Okay. Good.
 17 Thanks.
 18 THE VIDEOGRAPHER: That now
 19 concludes this videotape deposition and
 20 Tape No. 2; the time, 12:53.
 21 (Whereupon the deposition
 22 adjourned at 12:55 p.m.)
 23 - - -
 24
 25

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1
 2 I have read the foregoing
 3 transcript of my deposition given on May
 4 19, 2004, and it is true, correct, and
 5 complete, to the best of my knowledge,
 6 recollection, and belief, except for the
 7 corrections noted hereon and/or list of
 8 corrections, if any, attached on a
 9 separate sheet herewith.
 10
 11
 12
 13 RICHARD L. SPIELVOGEL, M.D.
 14
 15
 16
 17 Subscribed and sworn to
 18 before me this ____ day
 19 of _____, 2004.
 20
 21
 22
 23 Notary Public
 24
 25

In The Matter Of:

***AHERF v.
PRICEWATERHOUSECOOPERS, LLP***

DAVID C. STEVENS
February 10, 2004

LEGALINK MANHATTAN
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STEVENS, DAVID C.



DAVID C. STEVENS

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1
2 department shared my views.
3 Q. And that's reflected here in Exhibit
4 2314, the e-mail from Ms. Strayer to Mr. Mathis
5 with respect to Howard County, correct?
6 MR. WITTEN: Objection.
7 A. I think it certainly is reflected in
8 Strayer's comment. Yes.
9 Q. Ms. Strayer's comment, "I guess we
10 are not getting more conservative in light of
11 AHERF"?
12 A. Yes, and also the 3 rated,
13 underlined. What she's undoubtedly suggests is
14 the deal was misrated a 3 and it should have been
15 rated something much less than that.
16 Q. Misrated by individuals at MBIA's new
17 business side?
18 A. Yes. I think that's -- you'd have to
19 look into this, I can't. But it appears to me
20 from reading this that the new business side
21 rated a triple B minus rated S&P credit, which
22 typically would result in a 5 or 6 rating from
23 MBIA, that would be the equivalent for us, 5 or
24 6, was rated a 3, equivalent to an A. In their
25 mind -- because there is a line of credit running

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1
2 to the hospital was not factored in by S&P. So
3 in the mind of the new business analyst, as I
4 read this e-mail, this was a better credit than
5 S&P thought and Karleen reflects that when she
6 under lines 3 rated. She doesn't agree with 3.
7 She thinks it should have been probably a 5 or
8 6.
9 Q. Based on your experience in the
10 surveillance department and as the head of that
11 department, did you believe that MBIA's new
12 business side tended to assign ratings to credits
13 that weren't entirely accurate?
14 MR. BROWN: Objection. Go ahead and
15 answer.
16 A. I think they did on some occasions.
17 I couldn't give you a scientific answer that they
18 did it on the majority of the occasions or a
19 minority of the occasions or a third of the
20 occasions. But remember that the credits that I
21 tended to get in touch with were the ones that
22 ended up being 8. That was mainly what I did.
23 And so in that small universe of
24 credits, what you had typically was a long
25 history, by definition, since the credit got to

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1
2 that point, those are the credits that had a long
3 history of inaccurate assumptions on the part of
4 MBIA. To say, though, what you said, which is
5 there was a systemic overrating of credits, I'm
6 not prepared to say that by the new business
7 analysts. The credits that slipped into 8, which
8 were a tiny minority of all the credits, were
9 probably overrated. Because if they had been
10 rated accurately someone with some sort of
11 pressing would have said oh, this is an 8, let's
12 not do it.
13 Q. Let me show you what we previously
14 marked as Exhibit 1898.
15 A. Okay.
16 Q. Mr. Stevens, do you recall writing
17 this letter, Exhibit 1898, along with Mr. McCool
18 in the early July 1998 time frame?
19 A. Yes. I remember the letter. I don't
20 know if I wrote it. It might have been McCool
21 who drafted it and we might have made a couple of
22 comments. But I remember the letter now that you
23 put it in front of me.
24 Q. Do you recall who developed this
25 proposal? In other words, was it you, was it

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1
2 Mr. McCool, was it both of you, was it someone
3 else?
4 A. It was probably a group of people,
5 including me, McCool, Strayer, Mathis, possibly
6 David Hunter from the Hunter Group, possibly our
7 attorneys. I can't remember all the people, but
8 generally something like this is done by a large
9 group of people. You don't have two guys doing
10 this in a vacuum. There's usually quite a bit of
11 volume from a lot of different constituencies.
12 Q. Do you recall why these amounts are
13 referenced, 160 million, not more than 50 million
14 which was to be available through August 15th,
15 1998?
16 A. I don't remember why that was done
17 that way.
18 Q. The third paragraph begins, "We have
19 heard that the AHERF board has recently expressed
20 strong reservations with respect to making the
21 credit of the west available to support the
22 east." Do you see that?
23 A. Yes.
24 Q. Does that statement and the
25 statements in that paragraph following that

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<p style="text-align: right;">Page 254</p> <p>1 2 opening sentence refresh your recollection in any 3 way as to the position of the board with respect 4 to making AHERF's western assets available to 5 support the east? 6 A. Yes, it does. When you started 7 asking me these questions -- this has been kind 8 of the pattern all afternoon, that a lot of 9 things you asked me about I haven't remembered 10 and when you put the thing in front of me I 11 remember. So yes, the answer is yes. 12 Q. Do you recall why it was that the 13 board was not willing to make AHERF's western 14 assets available to support the eastern assets? 15 MR. WITTEN: Objection as to 16 foundation. 17 A. I couldn't possibly tell you that. 18 How would I know what the board was thinking? So 19 I guess the answer is no, I don't know why the 20 board said no. 21 Q. No one at AHERF, be it a board member 22 or a member of senior management, communicated to 23 you why the board rejected this proposal? 24 A. Certainly not any board member. I 25 can tell you what we thought. We thought that</p>	<p style="text-align: right;">Page 256</p> <p>1 2 mean, I don't know what would have happened. But 3 at the very least, if there were new assets and 4 cash flows coming in to support the debt, it 5 would have taken a while for both systems to 6 degrade to the level of the east system. I think 7 the west system did degrade over time. I think 8 after I left I believe I heard that the west 9 system was downgraded into the, what, the C range 10 or something like that. So probably it would 11 have just been postponed. Not avoided. But 12 that's just guesswork on my part. 13 Q. Was the idea that interim financing 14 for the DVOG or a pledge of assets from the 15 western entities would provide enough time for 16 AHERF to sell off one or more of the DVOG 17 hospitals? 18 A. That was part of the idea because 19 there was an active marketing going on trying to 20 sell the hospitals. 21 Q. And is it your recollection that an 22 entity known as Vanguard had expressed some 23 interest in possibly purchasing one or more of 24 the DVOG hospitals? 25 A. Yes.</p>
<p style="text-align: right;">Page 255</p> <p>1 2 the AHERF board was coming to the realization 3 that they had a train wreck in the east and they 4 didn't want to have two train wrecks, one in the 5 west as well. So they decided to tie a 6 tourniquet around the diseased part of the system 7 and let it die. 8 Q. I take it you mean that it's your 9 view that AHERF's board decided to put certain 10 AHERF affiliates into bankruptcy to protect the 11 assets of AHERF's western affiliates? 12 A. Yes. That's what we believed. But 13 again, if you're asking me why the board did 14 something, I can't answer it. I can only tell 15 you what we believed. 16 Q. Had the board made AHERF's western 17 assets available to support the east, do you 18 believe that the bankruptcy filing could have 19 been forestalled or avoided? 20 MR. BROWN: Objection. Go ahead and 21 answer. 22 A. I think it would have been at least 23 postponed. 24 Q. Why do you say that? 25 A. It would have taken a while for -- I</p>	<p style="text-align: right;">Page 257</p> <p>1 2 Q. Do you recall a proposal by MBIA for 3 AHERF to sell off the entire system, not just 4 certain assets in the east? 5 A. No, I don't. 6 Q. Let me show you this last document 7 and then we'll take a break. 8 A. Okay, I remember it now. 9 Q. Mr. Stevens, I believe you have in 10 front of you Exhibit 1642, is that correct? 11 A. Yes. 12 Q. What is it that you now recall having 13 reviewed this document? 14 A. I recall that I drafted this letter 15 along with Pat Mathis on behalf of Dick Weill. 16 We tried to elevate this. It was pretty much I 17 think a last ditch effort to keep them from 18 filing bankruptcy. We had engaged Goldman Sachs 19 to help us with the sale of the system. 20 Basically the appeal was at a high 21 level with respect to all this language about 22 healthcare service delivery and education in 23 Pennsylvania to try to appeal to the civic 24 responsibilities of the board and in effect put 25 the financial welfare of the west at some risk in</p>

65 (Pages 254 to 257)

DAVID C. STEVENS

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<p>1 2 to what steps MBIA might have taken if it had 3 been given additional information about the 4 financial condition of AHERF and/or its 5 affiliates at an earlier point in time? 6 MR. WITTEN: Aside from his eight 7 years of experience? 8 A. I don't know what other personal 9 information I could have other than my eight 10 years of experience. I don't understand the 11 premise of the question. 12 Q. Did you ever see a document that MBIA 13 put together outlining steps it would take if 14 there was a covenant violation at the DVOG? 15 A. I don't recall. 16 Q. Did you ever put together such a 17 document? 18 A. I don't recall. 19 Q. Did you direct anyone to put together 20 such document? 21 A. I don't recall. 22 Q. Mr. Stevens, thank you, I think 23 that's all I have for now. 24 MR. WITTEN: I have no questions. 25 MR. KRUSKO: I'd like to make a quick</p>	<p>1 2 STATE OF NEW YORK) Pg__of__Pgs 3 SS: 4 COUNTY OF NEW YORK) 5 I wish to make the following changes, for 6 the following reasons: 7 PAGE LINE 8 _____ CHANGE: _____ 9 REASON: _____ 10 _____ CHANGE: _____ 11 REASON: _____ 12 _____ CHANGE: _____ 13 REASON: _____ 14 _____ CHANGE: _____ 15 REASON: _____ 16 _____ CHANGE: _____ 17 REASON: _____ 18 _____ CHANGE: _____ 19 REASON: _____ 20 _____ CHANGE: _____ 21 REASON: _____ 22 _____ CHANGE: _____ 23 REASON: _____ 24 _____ CHANGE: _____ 25 REASON: _____</p>
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<p>1 2 statement on the record. I'd like to keep this 3 deposition open for the simple fact that I don't 4 know that we have been given the monthly 5 surveillance reports and the surveillance manual 6 that Mr. Stevens has testified about. I will go 7 back and investigate those two questions. But 8 right now I'm going to keep this deposition 9 open. 10 MR. WITTEN: I don't agree to that 11 but we can discuss that not right now but when we 12 review everything. 13 Q. Thank you again. 14 THE VIDEOGRAPHER: This concludes the 15 videotaped deposition of David C. Stevens at 6:22 16 p.m. on February 10th, 2004. We're going off the 17 record. 18 (TIME NOTED: 6:22 p.m.) 19 _____ 20 DAVID C. STEVENS 21 22 Subscribed and sworn to before me 23 this _____ day of _____, 2004. 24 _____ 25 _____</p>	<p>1 2 CERTIFICATE 3 STATE OF NEW YORK) 4 : ss. 5 COUNTY OF NEW YORK) 6 7 I, SUZANNE PASTOR, a Shorthand 8 Reporter and Notary Public within and for the 9 State of New York, do hereby certify: 10 That DAVID C. STEVENS, the witness 11 whose deposition is hereinbefore set forth, was 12 duly sworn by me and that such deposition is a 13 true record of the testimony given by the 14 witness. 15 I further certify that I am not 16 related to any of the parties to this action by 17 blood or marriage, and that I am in no way 18 interested in the outcome of this matter. 19 IN WITNESS WHEREOF, I have hereunto 20 set my hand this _____ day of _____, 2004. 21 _____ 22 23 SUZANNE PASTOR 24 25</p>

74 (Pages 290 to 293)

In The Matter Of:

***AHERF v.
PRICEWATERHOUSECOOPERS, LLP***

***DANIEL L. STICKLER
May 9, 2003***

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STICKLER, DANIEL L.



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DANIEL STICKLER

1 is that right, to the best of your memory?

2 A. That's my recollection, and then I
3 thought I made a mistake when I read this, but
4 now I go back to my recollection.

5 Q. And as to the package for the whole
6 set of Philadelphia region hospitals, to the best
7 of your recollection, that fell through sometime
8 around the bankruptcy, you recalled before, but
9 maybe it was after; is that right?

10 A. No. I'm thinking, now that I read
11 these minutes, that this proposal was part of the
12 package of filing for bankruptcy, and that the
13 bankruptcy counsel wanted and did receive what
14 they called a stalking horse bid, and I recollect
15 now, I think, it's very fuzzy, that that's what
16 this was. But I'm not positive.

17 Q. Could you explain what your
18 understanding is of a stalking horse bid, or is
19 that some term that's unique to AHERF, as far as
20 you are concerned?

21 A. I think it's a term that's unique to
22 the bankruptcy process. My understanding of it
23 was that it created a base for other proposals,
24 but that's about as much recollection as I have
25

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DANIEL STICKLER

1 Q. I mean, does looking at these minutes
2 refresh your memory at all, or are you able to
3 see what's on them?

4 A. It makes me think that this must have
5 been it, but I don't know whether I would testify
6 that this was it based on that.

7 Q. You don't have any recollection of
8 your own at this point?

9 A. No.

10 MR. TERUYA: I would like to mark as
11 Exhibit 1554 a document with Bates numbers HUNT
12 4502 through 4505, dated June 16, 1998. It seems
13 to be an engagement letter between The Hunter
14 Group and AHERF dated June 16, 1998.

15 (Deposition Exhibit 1554
16 for identification, document Bates stamped HUNT
17 4502 through HUNT 4505.)

18 A. Okay.

19 Q. Do you recognize this document?

20 A. I see it and read it. I'm sure I saw
21 it before, but I don't recall.

22 Q. Does this appear to you to be the
23 engagement letter between The Hunter Group and
24 AHERF?
25

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DANIEL STICKLER

1 on that.

2 Q. When you say a base for other
3 proposals, did you mean that you had an
4 understanding that the Vanguard bid would sort of
5 be publicly known and other bidders in the
6 bankruptcy process would have to beat that bid,
7 essentially?

8 A. Whether it was publicly known, I
9 don't know. I don't recall.

10 Q. But you recall that was the deal on
11 the table --

12 A. I recall at some point in time there
13 was discussion about a stalking horse bid, and
14 Vanguard did put in a bid that was considered the
15 stalking horse bid. That's about as much as I
16 recall about it.

17 Q. And in terms of the general
18 recollection you have of a meeting where there
19 was video conferencing between Allegheny General
20 Hospital on the west and I assume Hahnemann
21 University on the east, do you have any
22 recollection of what that meeting was about?

23 A. Only what I recall -- you know, what
24 these minutes tell me.
25

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DANIEL STICKLER

1 A. It appears to be the engagement
2 letter between The Hunter Group and AHERF
3 relative to the interim management services. I
4 think I stated to you earlier that there was
5 performance improvement planning responsibility.
6 I had thought that was all in one engagement
7 letter. There must have been separate engagement
8 letters, is all I can conclude, because I don't
9 see it mentioned here.

10 Q. I will just mention, I have a series
11 of engagement letters, and I was just trying to
12 understand the differences between them. So I am
13 taking out new ones, and if you are wondering
14 what I am doing.

15 So does this appear to be the initial
16 engagement letter between AHERF and The Hunter
17 Group?

18 A. It appears to be, yes.

19 Q. Do you see the signature on page 4 of
20 the document of Larry Scanlan?

21 A. Yes.

22 Q. Was he the president of The Hunter
23 Group at the time?
24

25 A. Yes.

37 (Pages 142 to 145)

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DANIEL STICKLER

Q. Is he still the president of The Hunter Group, to the extent there is one, at present?

A. I don't know what his exact title is now.

MR. D'ANGEL: He's a managing director at Navigant. He's a Navigant employee now.

Q. Back at the time in 1998, did Larry Scanlan have any kinds of involvement in the AHERF engagement, other than signing off the engagement letter, to your knowledge?

A. Not to my knowledge. He may have had in relationship to David Hunter, but I don't recall in relationship with me.

Q. And do you recognize this to be his handwriting on page 4?

A. No.

Q. You don't know?

A. No.

Q. But you don't have any reason to believe that this is not the engagement letter?

A. No.

Q. And at this point in time, is it

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DANIEL STICKLER

A. Yes.

Q. Was that on a different engagement?

A. No, I was visiting my in-laws.

Q. At that time you were still residing down in Florida?

A. Yes.

Q. Did you have to move up to Pennsylvania for the AHERF engagements?

A. No. I got a corporate apartment there in town, and used that, and went home on weekends when I could.

Q. Were most of the members of the engagement team from The Hunter Group who worked at AHERF residents of Pennsylvania?

A. I couldn't even --

Q. Or put differently, were there a lot of people who were in the same boat as you, coming from Florida to Pennsylvania, or were there lots of people who were from Pennsylvania?

A. Our people are scattered to live all over the country, and live wherever they want to, and fly to work Monday morning. And one guy on the engagement was from New Jersey, and he drove in. I think he drove in every day most of the

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DANIEL STICKLER

correct that this was an engagement letter just for services by you and David Hunter in terms of providing interim management services?

A. That's what I see here, yes.

Q. And at the time do you know why or what was the objective in terms of obtaining interim management services from The Hunter Group, if you know?

A. If I'm not mistaken, this was within days after the departure of Sherif and Donald Kaye, the eastern regional executive, and they were trying to plug a hole, I think.

Q. Do you remember who contacted whom? Did AHERF contact The Hunter Group, or vice versa?

A. I don't know. I was riding down the Coroner Turnpike in Ohio with my wife when I got a call on my cell phone that said can you be in Philadelphia Monday morning.

Q. That was on a Friday, you said, they gave you a call, and said be at work on Monday?

A. Friday or Saturday.

Q. And you were in Ohio, you said, at the time?

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DANIEL STICKLER

time, and drove back. There was another guy that I think his residence was in Philadelphia, in the Philadelphia area, who drove in and back.

I'm trying to think who else was there. I don't even remember. Honan's residence was in Florida at the time, I think.

Q. Were there any individuals other than yourself who had had management experience in Pennsylvania in terms of running hospitals, who were on the engagement team?

A. Well, David Hunter, of course. Alan Dzija was on the engagement team and had had experience in the Philadelphia area. I don't remember whether he had -- he worked for one of the consulting firms. I don't know whether he had direct hospital experience or not. I don't recall others.

Q. Was David Hunter actually on the engagement team, or did he just arrange for the engagement to occur and then left it to you?

A. He spent some time there. I couldn't tell you exactly how much. But he spent some time there, and he also spent some time on the phone with me relative to it. But my

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DANIEL STICKLER
today were three. Going off the record. The
time is 3:12 p.m.

DANIEL L. STICKLER

Subscribed and sworn to before me
this ____ day of _____, 2003.

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C E R T I F I C A T E
STATE OF NEW YORK)

: ss.

COUNTY OF NEW YORK)

I, JACK FINZ, a Certified Shorthand
Reporter and Notary Public within and for the
State of New York, do hereby certify:

That DANIEL L. STICKLER, the witness
whose deposition is hereinbefore set forth, was
duly sworn by me and that such deposition is a
true record of the testimony given by the
witness.

I further certify that I am not
related to any of the parties to this action by
blood or marriage, and that I am in no way
interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto
set my hand this ____ day of _____, 2003.

JACK FINZ, C.S.R.

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DANIEL STICKLER
STATE OF NEW YORK)
ss:
COUNTY OF NEW YORK)
I wish to make the following changes, for
the following reasons:

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DANIEL L. STICKLER

Subscribed and sworn to before me
this ____ day of _____, 2003.

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E X H I B I T S
DESCRIPTION PAGE LINE

(Deposition Exhibit 1550 for
identification, document bearing Bates
numbers HUNT 4821 through HUNT 4857.)..... 7 18
(Deposition Exhibit 1551 for
identification, document Bates stamped
SA 309, 24 pages.)..... 44 8
(Deposition Exhibit 1552 for
identification, document Bates stamped
PR-MM-06-1925 through PR-MM-06-1932.)..... 85 21
(Deposition Exhibit 1553 for
identification, document bearing Bates
numbers GOV 53486 through GOV 53492.).... 139 17
(Deposition Exhibit 1554 for
identification, document Bates stamped
HUNT 4502 through HUNT 4505.)..... 144 15
(Deposition Exhibit 1555 for
identification, document Bates stamped
HUNT 4493.)..... 151 7
(Deposition Exhibit 1556 for
identification, document Bates stamped
HUNT 4547 through HUNT 4549.)..... 151 21
(Deposition Exhibit 1557 for
identification, document bearing Bates
stamps HUNT 4500 and HUNT 4501.)..... 155 12
(Deposition Exhibit 1558 for
identification, document Bates stamped
HUNT 4494 through HUNT 4498.)..... 163 20
(Deposition Exhibit 1559 for
identification, document entitled
"Summary Cover Sheet, Fees and
Expenses Application," consisting of 96
pages.)..... 167 21

In The Matter Of:

***AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P.***

***DANIEL L. STICKLER
May 28, 2003***

***LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171***

STICKLER, DANIEL L.



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DANIEL L. STICKLER

that was still being paid a significant salary sometime after he ceased serving that role, that I would have had some serious concerns about had I been the CEO.

Q. What was that person's name?

A. I knew you were going to ask me that. I can't think of it. That's one example that comes to my mind.

Q. Was that person being paid while you were there?

A. Until we found it and stopped it, yes.

Q. Have you ever heard of the name Carol Talbert?

A. I have, yes.

Q. And in what capacity have you heard of the name Carol Talbert?

A. She was on the corporate staff at one point in time. I don't think she was still there when I got there. She had -- I don't even remember exactly what -- I can't think exactly what her responsibilities were, whether it was physician practice acquisition or management of physician practices. I can't remember what her

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DANIEL L. STICKLER

A. Relative to potential personal relationships.

Q. That she was having affairs? Did you hear rumors that she was having an affair with someone else within AHERF?

A. I heard rumors that she had a close personal relationship with someone else within AHERF.

Q. Okay, we will leave it at that. It's already on the record.

Have you ever heard the name Iqbal Paroo?

A. I have, yes.

Q. In what capacity?

A. He was the president of AUHS prior to AHERF acquiring -- he was president of Hahnemann, I guess, prior to AHERF acquiring AUHS, and I think he remained in that role for some time period after they acquired it. I'm not certain.

Q. Did you ever learn or hear anything about the circumstances surrounding of Mr. Paroo's departure from AHERF?

A. No, I did not.

Q. Did you ever hear that he was paid a

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DANIEL L. STICKLER

responsibilities had been.

Q. Did you ever hear anything about the circumstances of her separation from AHERF?

A. No, I don't recall having heard that. I heard rumors surrounding her name, but those were all very much hearsay and history, and I don't think something that I could quote.

Q. Did you ever hear that she received a \$1.6 million settlement to depart AHERF?

A. I don't think I ever heard that, no. I don't think so.

Q. Did you ever hear that she got a consulting contract that paid her \$300,000, but that she didn't provide any services in exchange for that contract?

MR. TERUYA: Objection.

A. I don't think so. I assume those things all had happened prior to my arrival there, and, to be honest with you, I wouldn't have paid any attention to them if I had heard them if they were history.

Q. What were the rumors surrounding the name Carol Talbert that you referred to a few minutes ago?

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DANIEL L. STICKLER

settlement payment for \$3 million to release a claim for intentional infliction emotional distress?

A. No, I did not.

Q. Did you ever have any conversations with trustees of AHERF where they indicated that they had known all along that AHERF's financial condition was far worse than the audited financial statements indicated?

MR. TERUYA: Objection.

A. I don't think I did, no.

Q. If you, meaning The Hunter Group, had been on the scene 18 months earlier, say in December of 1996, do you believe that you could have implemented a turnaround plan and avoided bankruptcy?

MR. TERUYA: Objection.

A. Yes, I believe we could have, yes.

Q. And what do you base that belief on?

A. I don't know that I could tie it to specifics, other than my understanding of the organization and the expense reductions that we felt we could make when we put that 30,000-foot plan together. It would have required some

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1 DANIEL L. STICKLER
 2 difficult decisions to be made, but I believe it
 3 could have been done.
 4 Q. Is your belief also based in part on
 5 your experience in the hospital field?
 6 A. Oh, obviously, yes.
 7 Q. And is your belief based in part on
 8 other experience that you have had with other
 9 turnarounds?
 10 A. Yes.
 11 Q. And is your belief based in part on
 12 what experience that The Hunter Group, not just
 13 you, has had in other hospital turnarounds?
 14 A. I guess to some extent.
 15 MR. WITTEN: Let's go off the record
 16 for a minute and I will see if I have any more
 17 questions.
 18 THE VIDEOGRAPHER: We will go off the
 19 record. It is 11:44. And this is tape 5.
 20 (A recess was taken.)
 21 THE VIDEOGRAPHER: Back on the
 22 record. It is 11:48, and this is tape 5.
 23 BY MR. WITTEN:
 24 Q. Mr. Stickler, I don't have the Tenet
 25 asset purchase agreement here, but I notice

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1 DANIEL L. STICKLER
 2 be necessary.
 3 Q. This offshore is a subsidiary of
 4 AHERF, the parent?
 5 A. That's my understanding, yes.
 6 Q. Did AHERF go out and purchase its own
 7 insurance policies, or did that sub purchase
 8 reinsurance?
 9 A. I couldn't answer that question for
 10 you.
 11 MR. WITTEN: I don't have any other
 12 questions.
 13 MR. TERUYA: I don't know what you
 14 folks want to do in terms of scheduling. I
 15 probably have about maybe 45 minutes or so to an
 16 hour of followup. I don't know if you want to
 17 take a quick lunch and come back. It's up to
 18 you.
 19 THE WITNESS: Let's do it and get it
 20 over.
 21 EXAMINATION BY MR. TERUYA:
 22 Q. Earlier this morning you were talking
 23 about your experiences at Cedars Medical Center.
 24 Do you recall that?
 25 A. Yes.

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1 DANIEL L. STICKLER
 2 there's a provision in that asset purchase
 3 agreement relating to the fact that some of the
 4 monies, some of the purchase price, is going to
 5 be used to purchase malpractice insurance tails
 6 for the hospitals or the physicians. I don't,
 7 frankly, recall which. Do you remember anything
 8 about the discussion about the purchase of
 9 medical malpractice insurance tails?
 10 A. I recall that the absence of any
 11 malpractice coverage was considered by Tenet to
 12 be an obstacle to their acquisition, because they
 13 were concerned that liability from previous cases
 14 may end up accruing to them in the absence of any
 15 insurance, and there would not have been any
 16 insurance or any way to buy insurance had that
 17 not been done.
 18 Q. Was there an absence of insurance
 19 covering the AHERF eastern region or some of its
 20 assets?
 21 A. My recollection is that there was an
 22 offshore insurance company, that there was a
 23 question about there being enough assets to cover
 24 potential liabilities, and that's one of the
 25 reasons why this tail purchase was considered to

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1 DANIEL L. STICKLER
 2 Q. That's located down in Florida?
 3 A. Miami, Florida.
 4 Q. And did you previously mention that
 5 one of the steps you take -- on day one of your
 6 deposition did you mention that one of the steps
 7 that you would take in trying to come up with a
 8 turnaround plan and to judge its feasibility
 9 would be to study the market conditions in which
 10 a hospital operates, if you were going to try to
 11 turn around a hospital?
 12 A. That would be one of the steps, yes.
 13 Q. And I take it you have never
 14 performed any comparison of the market conditions
 15 in Florida as they existed while you were in
 16 charge of Cedars Medical Center and the market
 17 conditions in Philadelphia at the time you were
 18 there --
 19 A. We never did a comparison of that,
 20 no.
 21 Q. And as you mentioned before, you
 22 didn't perform any study of the market conditions
 23 in Philadelphia because you didn't have time?
 24 A. That's right. There were reports of
 25 a market analysis that had been done by AHERF

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1 DANIEL L. STICKLER
 2 THE VIDEOGRAPHER: We are going off
 3 the record. It's 1:03. This is tape 5.
 4 (Discussion off the record.)
 5 THE VIDEOGRAPHER: Back on the
 6 record. It's 1:04, tape 5.
 7 MR. TERUYA: I have no further
 8 questions on redirect.
 9 MR. WITTEN: Thank you. I just have
 10 a handful of questions. It shouldn't take very
 11 long.
 12 EXAMINATION BY MR. WITTEN:
 13 Q. Mr. Teruya elicited testimony from
 14 you comparing and contrasting the AHERF system
 15 from the University of Pennsylvania system.
 16 A. Yes.
 17 Q. You recall that?
 18 A. Yes.
 19 Q. And you testified that the Allegheny
 20 University of the Health Sciences is not as
 21 prestigious a university as the University of
 22 Pennsylvania Medical School; is that right?
 23 A. That's correct.
 24 Q. And was it also your testimony that
 25 the hospitals that make up AHERF were not as

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1 DANIEL L. STICKLER
 2 whether the contents of that document is exactly
 3 what we put together back then, I couldn't
 4 testify.
 5 Q. And is that in part because of the
 6 passage of time?
 7 A. Yes, mainly because of the passage of
 8 time.
 9 MR. WITTEN: I don't have any other
 10 questions.
 11 MR. TERUYA: I don't have any other
 12 questions. Thank you for your time.
 13 THE VIDEOGRAPHER: We will go off the
 14 record. The time is 1:06. And this is the end
 15 of Tape No. 5.
 16 (Time noted: 1:06 p.m.)
 17
 18
 19 DANIEL L. STICKLER
 20
 21 Subscribed and sworn to before me
 22 this ____ day of ____, 2003.
 23
 24
 25

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1 DANIEL L. STICKLER
 2 prestigious as the Hospital of the University of
 3 Pennsylvania and Pennsylvania Hospital?
 4 A. That's correct.
 5 Q. Even taking into account the
 6 reputation -- excuse me, let me start that over.
 7 Taking into account your
 8 understanding of the reputation of AHERF, lower
 9 generally than the University of Pennsylvania
 10 system, does that alter your view about whether a
 11 turnaround was achievable for AHERF?
 12 MR. TERUYA: Objection.
 13 A. No.
 14 Q. Turning to the 30,000-foot plan that
 15 we have referenced this day and the last day, I
 16 believe I know the answer but I want to make sure
 17 the record is clear on this, of all the exhibits
 18 that you looked at, that I have shown you and Mr.
 19 Teruya has shown you, is it right that you did
 20 not recognize any of the documents or any part of
 21 the documents that you looked at, that we drew
 22 your attention to, as memorializing that
 23 30,000-foot plan?
 24 A. I did not recognize them as a
 25 specific document that I had seen before. As to

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1 DANIEL L. STICKLER
 2 STATE OF NEW YORK)
 3 ss.
 4 COUNTY OF NEW YORK)
 5 I wish to make the following changes, for
 6 the following reasons:
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 24 DANIEL L. STICKLER
 25 Subscribed and sworn to before me
 this ____ day of ____, 2003.

Strayer Dep.

In The Matter Of:

*AHERF v.
PRICEWATERHOUSECOOPERS, LLP*

KARLEEN STRAYER

March 14, 2005

LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171

STRAYER, KARLEEN



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1 KARLEEN STRAYER
2 Exhibit 2803 a document with Bates numbers
3 HLAH 0015757 through 69.
4 (Deposition Exhibit 2803
5 for identification, Committee Bylaws, production
6 numbers HLAH 0015757 through 69.)
7 Q. If you can just take a moment,
8 Ms. Strayer, to take a look at Exhibit 2803 and
9 let me know if this document is familiar to you.
10 A. Yes, it is familiar.
11 Q. Is this a copy of the bylaws of the
12 Committee?
13 A. Yes.
14 Q. I note on page 12 of this document
15 there is a section for an attestation it's
16 called where there are blanks where this could
17 be dated and signed by the law firm of Jones
18 Day. Do you see that?
19 A. Yes.
20 Q. Do you know whether that ever
21 occurred?
22 A. I don't.
23 MR. RYAN: Could I request, Jesse,
24 that if there is a sign or perhaps the term is
25 attested copy of the bylaws of the Committee

Page 19

1 KARLEEN STRAYER
2 that we could be provided with it.
3 MR. WITTEN: Sure. Okay.
4 INFORMATION REQUESTED TO BE SUPPLIED:
5 -----
6 Q. Now this appears to be from October
7 1998 as you can see by the blank attestation
8 block on page 12 of the exhibit. Do you know
9 whether there have been any changes since that
10 time frame to the bylaws of the Committee?
11 A. I don't recall.
12 Q. Would you turn, please, to page 3,
13 section 1.6 which is entitled Chairpersons.
14 There is a reference there to what I think you
15 already have testified to, which is that a
16 meeting held on July 30, 1998 the Committee
17 elected MBIA and Aetna as its co-chairpersons;
18 is that right?
19 A. Yes.
20 Q. Let me ask you, Ms. Strayer, a
21 question as designee of MBIA. Do you consider
22 MBIA to be a co-chair for the other bondholders
23 or for all of the creditors?
24 A. For all of the creditors.
25 Q. In acting on behalf of MBIA on the

Page 20

1 KARLEEN STRAYER
2 Committee, do you attempt in any way to advance
3 the interests of MBIA and the other bondholders?
4 MR. WITTEN: Objection. You can
5 answer it if you can.
6 A. Could you repeat the question.
7 Q. Sure. In acting on behalf of MBIA
8 on the Committee, do you attempt to advance the
9 interests of MBIA and the other bondholders?
10 A. No. I mean just to clarify, there
11 was a point in time when we were specifically
12 negotiating in the Global Settlement Agreement
13 how MBIA would be treated. In those cases we
14 would have discussion that would obviously
15 represent MBIA's interests, but in general
16 that's the only time I can think of that we were
17 representing MBIA's interest versus the full
18 Committee's.
19 Q. So there were discussion that took
20 place to arrive at a global settlement where
21 MBIA and other bondholders had interests that
22 differed from those of the vendor creditors; is
23 that right?
24 A. We had a different security
25 position so it was a discussion to determine how

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1 KARLEEN STRAYER
2 things would be allocated given those security
3 positions.
4 Q. Did those discussions take place at
5 meetings of the Committee or at separate
6 meetings?
7 A. There was a Subcommittee formed to
8 discuss that.
9 Q. What was the name of that
10 Subcommittee? Or how did you refer to that
11 Subcommittee, is there some sort of designation
12 or subject matter that you would use to refer to
13 it?
14 A. There may have been at the time. I
15 don't recall if there was a name given to that
16 Subcommittee. I am sure there was some sort of
17 name attached to it, but I don't recall the name
18 of it now.
19 Q. But it is a Subcommittee to deal
20 with the issue of security interest that the
21 bondholders have?
22 A. That, right. That MBIA and PNC
23 had.
24 Q. Was there a separate Subcommittee
25 formed to deal with the security interest that

<p style="text-align: right;">Page 22</p> <p>1 KARLEEN STRAYER</p> <p>2 the Centennial bondholders have?</p> <p>3 A. I don't believe so.</p> <p>4 Q. Just to be clear, I am asking you</p> <p>5 now as a representative of the Committee, who</p> <p>6 were the members of this Subcommittee on</p> <p>7 security interests of the DVOG bondholders?</p> <p>8 A. I don't recall, but MBIA was not on</p> <p>9 that Committee. It was the -- people on the</p> <p>10 Subcommittee were determining the Committee's</p> <p>11 position toward MBIA and PNC's view of the</p> <p>12 securities, so we had, it was not appropriate</p> <p>13 for us to be on that Committee.</p> <p>14 Q. I see. So this was, in effect, a</p> <p>15 Subcommittee from which MBIA and PNC were</p> <p>16 recused from being members of?</p> <p>17 A. Yes. Yes.</p> <p>18 Q. And were there then, in your</p> <p>19 understanding, separate meetings where this</p> <p>20 Subcommittee of the Committee had negotiations</p> <p>21 with representatives of MBIA or PNC?</p> <p>22 A. Yes.</p> <p>23 Q. Were you personally involved in any</p> <p>24 of those negotiations?</p> <p>25 A. Yes.</p>	<p style="text-align: right;">Page 24</p> <p>1 KARLEEN STRAYER</p> <p>2 from Aetna was at that meeting.</p> <p>3 Q. Who was there on behalf of MBIA and</p> <p>4 PNC?</p> <p>5 A. I was there. I don't recall who</p> <p>6 from PNC was there.</p> <p>7 Q. And what were the subjects of those</p> <p>8 negotiations?</p> <p>9 A. We were simply negotiating how we</p> <p>10 would be treated in terms of distributions</p> <p>11 coming out of the AHERF estate, given our</p> <p>12 security position.</p> <p>13 Q. Was there a dispute over what the</p> <p>14 amount of the security interest for MBIA and PNC</p> <p>15 should be?</p> <p>16 A. Over the amount? I would say over</p> <p>17 the percentage.</p> <p>18 Q. What do you mean by that?</p> <p>19 A. Well, I'm not sure at the time we</p> <p>20 were having these discussions that there was the</p> <p>21 view that the estate proceeds would fully cover</p> <p>22 what we felt to be our claim.</p> <p>23 So, the discussions were primarily</p> <p>24 being held because there were issues regarding</p> <p>25 the language within the documents concerning our</p>
<p style="text-align: right;">Page 23</p> <p>1 KARLEEN STRAYER</p> <p>2 Q. On behalf of MBIA?</p> <p>3 A. Yes.</p> <p>4 Q. Well, let me then ask you as a</p> <p>5 representative of MBIA who do you recall being</p> <p>6 involved in the negotiations between MBIA and</p> <p>7 PNC on the one hand and the Committee on the</p> <p>8 other hand?</p> <p>9 A. I am almost certain David Heiman</p> <p>10 was there as a representative, not as a</p> <p>11 representative but as providing advice to that</p> <p>12 Subcommittee.</p> <p>13 Q. He is a lawyer from the law firm of</p> <p>14 Jones Day?</p> <p>15 A. Yes. I am quite sure a</p> <p>16 representative from Aetna was there, but other</p> <p>17 than that I can't recall who was on that</p> <p>18 Subcommittee.</p> <p>19 Q. Is the individual from Aetna the</p> <p>20 same person whose name you could not recall</p> <p>21 earlier?</p> <p>22 A. I remember Aetna being there</p> <p>23 because they obviously being a co-chair of the</p> <p>24 Committee were important to these kind of</p> <p>25 discussions. I do not recall who specifically</p>	<p style="text-align: right;">Page 25</p> <p>1 KARLEEN STRAYER</p> <p>2 security and the strength of that language. And</p> <p>3 that is really what the dispute revolved around.</p> <p>4 So, we eventually came up with a</p> <p>5 resolution to that which, I know was outlined, I</p> <p>6 don't know if it was in the Global Settlement</p> <p>7 Agreement or in one of the documents it is</p> <p>8 outlined what the outcome was. But it</p> <p>9 basically, I think, ultimately we came up with</p> <p>10 an amount. But it was basically how we resolved</p> <p>11 what percentage MBIA would get of what we felt</p> <p>12 our secured claim was.</p> <p>13 Q. Was there an effort made to value</p> <p>14 the accounts receivable?</p> <p>15 A. I think by the point in time we</p> <p>16 were having these conversations that was a</p> <p>17 number that was either known or the majority of</p> <p>18 it was known. And we were relying on the</p> <p>19 professionals to provide us with that</p> <p>20 information.</p> <p>21 Q. Do you know who provided you with</p> <p>22 that information?</p> <p>23 A. I can't say specifically right now</p> <p>24 who provided that. It was, we had our attorneys</p> <p>25 helping us out and also had accountants helping</p>

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1 KARLEEN STRAYER
2 us out as well.
3 Q. Was there a professional retained
4 specifically by MBIA and PNC to represent their
5 separate interests in valuing the accounts
6 receivable for purposes of the security
7 interest?
8 A. No.
9 Q. To your knowledge of professionals
10 who were used, were ones who were retained by
11 the Committee as a whole?
12 A. Yes.
13 Q. Did you ever consider whether that
14 posed a conflict of interest?
15 A. Well, I think we obviously, the
16 disagreement had to do with how any proceeds
17 from receivables were split up. Not what the
18 ultimate amount was.
19 I think MBIA's view was that we had
20 faith in the numbers that were coming out of the
21 Committee's professionals and that wasn't the
22 number that was at dispute. It was simply of
23 that amount, how did that get carved up.
24 Q. Was there then a dispute over
25 whether the legal documents in fact gave MBIA

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1 KARLEEN STRAYER
2 and PNC a security interest or not?
3 A. There was disagreement over how
4 clear the language was in that regard.
5 Q. And there were members of the
6 Committee other than MBIA and PNC who were
7 arguing the language was unclear; is that right?
8 A. Yes.
9 Q. And that as a result MBIA and PNC
10 should not have a security interest?
11 A. I don't know if they were -- that's
12 possible. They may also have indicated that it
13 was simply impaired to some degree.
14 Q. Impaired meaning that it would be
15 lesser amount?
16 A. Less. Less than 100 percent of it,
17 yes.
18 Q. At the time you were involved in
19 these negotiations did you understand that the
20 greater the security interest that MBIA and PNC
21 got, the smaller the amount of recovery for
22 other creditors would be?
23 A. Yes.
24 Q. Did you feel that that conflict of
25 interest among members of the Committee affected

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1 KARLEEN STRAYER
2 how the Committee then as a whole dealt with
3 other issues later on?
4 MR. WITTEN: Objection.
5 A. No. I would say not. Not at all.
6 Q. Returning to asking questions as
7 representative of the Committee, could you turn,
8 please, to page 6. And specifically section
9 2.7. Do you see that section begins "While all
10 Committee members acknowledge that they are
11 acting in a fiduciary capacity as defined by
12 law?" Do you see that?
13 A. Yes.
14 Q. And do you agree that members of a
15 Committee of Unsecured Creditors are required by
16 law to act in a fiduciary capacity?
17 A. Yes.
18 Q. What is your understanding of what
19 that term means?
20 A. That by acting in a fiduciary
21 capacity the members of the Committee have the
22 responsibility to follow the bylaws and
23 represent all of the unsecured creditors,
24 whether they are on the Committee or not on the
25 Committee.

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2 Q. Do you agree that members of a
3 Committee of Unsecured Creditors may not use
4 their positions as Committee members to advance
5 only their individual interests?
6 A. Yes.
7 Q. Are you aware of any instance in
8 which you believe a member of the Committee has
9 done that?
10 A. I'm not aware of any, no.
11 Q. Do you see the next section on the
12 same page of Exhibit 2803, section 2.8 is
13 entitled Conflict of Interest?
14 A. Yes.
15 Q. The first sentence reads "Each
16 Committee member shall disclose any conflict of
17 interest with respect to any matter under
18 consideration by the Committee?" Right?
19 A. Yes.
20 Q. Do you recall such disclosure
21 having been made at any point in the meetings of
22 the Committee?
23 A. A conflict of interest? There were
24 people -- it was not unusual at all for people
25 to abstain from voting on various points brought

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2 issue?

3 A. I think our view was we wanted it
4 to represent fairly the value behind the various
5 assets. I don't think any of us on the
6 Committee would have thought that Houlihan Lokey
7 was there to somehow represent us over and above
8 anyone else. So they presented what they
9 thought was reasonable and we could agree or
10 disagree with it.

11 Ultimately most of the things that
12 mattered to the Committee came up for a vet and
13 we voted on it. So there was no one Committee
14 member or members that could drive a decision
15 one way or another necessarily.

16 Q. Did the Trustee for the Centennial
17 bond holders state at meetings of the Committee
18 whether they had any separate advisors who were
19 advising them individually on this issue?

20 A. I vaguely recall that they had
21 other advisors. I couldn't give you any details
22 on it. But I do vaguely recall they had other
23 people they were talking with.

24 Q. Let me ask you as representative of
25 MBIA, did MBIA and PNC have their own separate

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2 A. Yes.

3 Q. Is it the case that in the
4 bankruptcy plan that was adopted and remains in
5 effect today there is a lower rate of payout to
6 creditors of Centennial than to creditors of the
7 other estates?

8 A. A lower rate of payout? I believe
9 that's true.

10 Q. Is that lower rate of payout to
11 creditors of Centennial a reflection of a
12 determination that Centennial had more
13 liabilities in relation to its assets than did
14 the other debtors?

15 A. I think there were a lot of things
16 that went into it. Again, we relied on our
17 professionals to help lead us through what would
18 be fair in that regard.

19 Q. What factors did go into the lower
20 rate of payout in the bankruptcy plan to
21 Centennial creditors?

22 A. Well, I know they had, just in
23 terms of the agreement, I mean obviously they
24 were -- there was a part of the proposal
25 determined how much of certain distributions

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2 advisors on this issue of the allocation of the
3 Eastern region sale of assets between the
4 obligated groups?

5 A. Given the time frame here at which
6 we were taking these notes, this was not a huge
7 issue in our mind. Our focus was on getting as
8 much value as possible for the sale of the
9 assets. And it was a compressed time frame. A
10 lot of moving parts and our focus really was,
11 MBIA's focus was really on that. And not so
12 much how things got divided among the pieces.

13 That was something that, I guess we
14 assumed could be worked out at a later date.

15 Q. Okay. At any point in time in the
16 AHERF bankruptcy process did MBIA and PNC have
17 separate advisors, apart from Houlihan Lokey,
18 that is advisors who were advising you
19 separately on this issue of the allocation of
20 the sale proceeds between obligated groups?

21 A. I don't recall that we did, no.

22 Q. Going back to asking you now as a
23 representative of the Committee, you made a
24 reference to the ultimate consolidation of
25 estates; is that right?

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2 went to MBIA and PNC versus Centennial. And
3 within those distributions Centennial did get
4 less. Part of that had to do with the view of
5 what the value of those assets was worth.

6 I believe part of it was just the
7 amount of debt the Centennial bondholders had
8 versus MBIA and PNC was less.

9 They also had some other sources of
10 recovery that were outside of the estate as
11 well.

12 So, I mean ultimately that was
13 based on the professionals and based on what
14 Centennial would accept that that was the
15 agreement that everyone agreed to in the end. I
16 can't tell you specifically how that was
17 determined.

18 Q. Who was involved in working out
19 that agreement?

20 A. Our professionals were involved.
21 By agreement, I guess could you clarify which
22 agreement you mean?

23 Q. Sure. Who was involved in working
24 out the agreement as embodied in the bankruptcy
25 plan that creditors of Centennial would get a

27 (Pages 102 to 105)

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 2 lower rate of payout than creditors of the other
 3 estates?
 4 A. I think it was primarily a
 5 combination of Jones Day and -- it was Jones
 6 Day. I am not sure at that point in time if
 7 some of the other professionals had also advised
 8 Jones Day.
 9 Q. Jones Day is counsel to the
 10 Committee as a whole; is that right?
 11 A. Yes.
 12 Q. I am not sure I understand then how
 13 counsel to the Committee as a whole could be
 14 involved in negotiations over an agreement as to
 15 what the relative rate of payouts to creditors
 16 in the different estates would be. Aren't there
 17 different interests on the two sides there?
 18 A. There are different interests, but
 19 in this specific example, Centennial would have
 20 been negotiating for their own interests. And
 21 Jones Day would have been looking out for the
 22 Committee interest.
 23 Similar to when MBIA and PNC worked
 24 out their agreement, Jones Day was on the other
 25 side, we understood that as we talked with Jones

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 2 Day at that point in time they were representing
 3 the Committee as a whole. They weren't
 4 representing us in any way.
 5 Q. So it is your understanding then
 6 that Jones Day took the lead negotiating to
 7 protect the interests of creditors of the other
 8 four estates, that is the non-Centennial
 9 estates?
 10 A. Well, they were, their
 11 responsibility was to ensure that the agreement
 12 that was reached was fair based on their due
 13 diligence. Yeah, I guess, you know, they were
 14 trying to negotiate something that was to the
 15 benefit of the estate overall.
 16 Q. In the understanding of the
 17 Committee was Jones Day trying to negotiate an
 18 agreement that was for the benefit of creditors
 19 of all five estates, including a consideration
 20 of the interests of Centennial creditors or was
 21 Jones Day trying to negotiate a deal that was as
 22 favorable as possible for creditors of the four
 23 non-Centennial estates?
 24 A. At the point all of this is
 25 happening this is also as the estates are being

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 2 consolidated so that is why I am having a little
 3 trouble answering this question. That when
 4 these agreements were laid out they are within
 5 the document where the whole consolidation is
 6 laid out as well.
 7 So, I guess I don't quite know how
 8 to answer that because Centennial had their
 9 representatives.
 10 Q. Who was that?
 11 A. I don't know. I wasn't a party to
 12 those discussions.
 13 Q. Isn't it the case that if a
 14 creditors of DVOG would not have accepted a
 15 consolidation in which Centennial creditors got
 16 paid out at the same rate as DVOG creditors?
 17 A. I would assume so.
 18 Q. And in the bankruptcy plan that was
 19 adopted creditors of Centennial get paid out at
 20 30 percent of the rate at which creditors of the
 21 other four estates get paid out; right?
 22 MR. WITTEN: Objection.
 23 A. That roughly sounds right.
 24 Q. You made a reference earlier to
 25 certain amount that creditors of Centennial

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 2 could recover outside the bankruptcy process; is
 3 that right?
 4 A. Yes.
 5 Q. And to what were you then
 6 referring?
 7 A. I believe they had another suit of
 8 some sort going on where they expected fairly
 9 significant recovery.
 10 Q. That was a lawsuit brought on
 11 behalf of the Centennial bondholders against the
 12 successor entity to the Graduate Health System;
 13 is that right?
 14 A. Yes.
 15 Q. Known as a Philadelphia Healthcare
 16 Trust; right?
 17 A. That sounds right.
 18 Q. Now that is a lawsuit that was
 19 being brought only on behalf of the Centennial
 20 bondholders; right? Not on behalf of other
 21 creditors of Centennial?
 22 A. I'm not really familiar with the
 23 details of that.
 24 Q. Was there a decision at the
 25 Committee on the topic of whether the vendor

28 (Pages 106 to 109)

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KARLEEN STRAYER

STATE OF NEW YORK) Pg 1 of 1 Pgs

ss:

COUNTY OF NEW YORK)

I wish to make the following changes, for the
following reasons:

PAGE LINE

16 15 CHANGE: "Ron" to "Ram"

REASON: incorrect name

CHANGE: _____

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